COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange First Section

16-Feb.-2022

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Summary

Earnings continued an increasing trend for H1 FY3/22, for record high profits. For FY3/22, the Company plans to achieve medium-term management plan targets and significantly increase dividends

1. Company profile

Fuyo General Lease Co., Ltd. <8424> (hereinafter, the Company) is a comprehensive leasing company established in 1969 by six Fuyo Group companies, including The Fuji Bank, Limited (currently Mizuho Financial Group, Inc. <8411>) and Marubeni-Iida Co., Ltd. (currently Marubeni Corporation <8002>). Its strengths include real estate and energy/environment, and it has an annual newly executed contract volume of ¥1,343.9bn and operating assets of ¥2,555.9bn (FY3/21 result). In addition to the steady increase in operating assets in business fields it has positioned as strategic fields, such as real estate, the Company is steadily expanding its earnings through the growth of BPO services* from M&A.

* Business Process Outsourcing: A service that contributes to operational improvements and increased efficiency by handling some of client companies' business processes.

2. Medium-term management plan

The Company is promoting its five-year medium-term management plan Frontier Expansion 2021, which lasts through FY3/22. With a slogan of "Going where no one has gone before," it aims to be a corporate group with sustainable growth, despite major changes in the environment for the domestic leasing business, through expansion of the business portfolio's "frontier" by pursuing new business areas and business models. The targets for the plan's final fiscal year are operating assets of ¥2,500bn (already achieved ahead of schedule), ROA (Return on Assets: ratio of ordinary profit to operating assets) of 2.0%, and ordinary profit of ¥50bn. The scenario regarding ordinary profit in particular is realizing it through the combination of 1) accumulating operating assets and 2) improving ROA, including through increasing non-asset earnings.

3. Summary of H1 FY3/22 results

In H1 FY3/22, total revenues decreased 20.1% YoY to ¥285.4bn, while profit increased at every level to reach new record highs, with operating profit up 12.3% to ¥23.5bn, ordinary profit climbing 20.7% to ¥27.4bn, and profit attributable to owners of parent increasing 30.3% to ¥18bn. Although total revenues decreased due to a change in accounting standard, there was no impact on profit and loss. Profit before interest expenses, which shows true business performance, also expanded steadily by 4.8% YoY to ¥48.1bn. In particular, despite the continued adverse business environment following the COVID-19 pandemic in strategic fields such as aircraft, these impacts were covered by continued favorable performance in real estate and growth in energy/environment. Appropriate adjustment of the portfolio also contributed significantly to increasing profits. Furthermore, expenses were curbed as personnel and equipment expenses decreased, interest expenses decreased, and profits and losses related to bad debts also improved, contributing to a significant increase in ordinary profit. Operating assets were ¥2,558.2bn, about the same level as the previous fiscal year-end, mainly due to asset control through liquidation. However, ROA improved dramatically through portfolio adjustments incorporating highly profitable assets. In addition, the Company also had a commendable achievement of major results in developments for the future, such as business domain expansion in real estate, new initiatives in energy/environment, and function enhancement in BPO services.

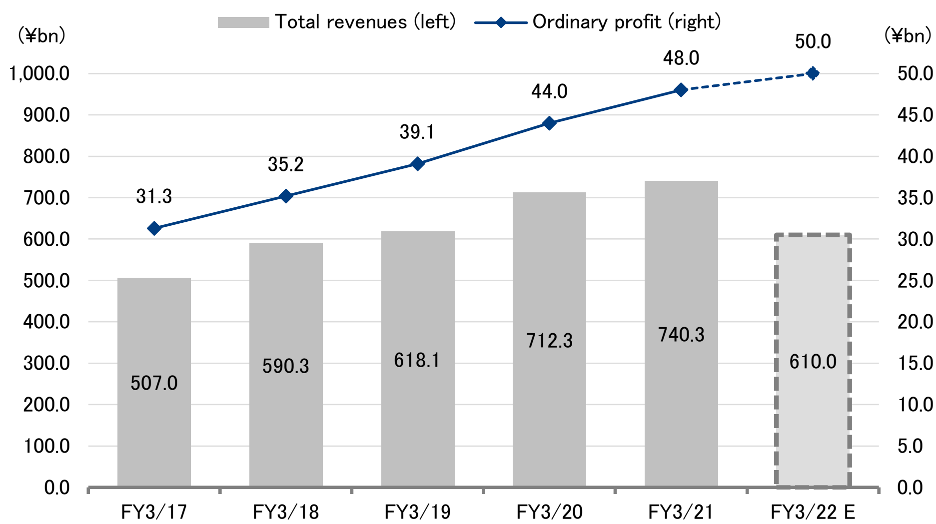
4. FY3/22 results outlook

For the FY3/22 results, the Company has left its initial forecasts unchanged, forecasting total revenues to decrease 17.6% YoY to ¥610bn, while profits will increase at every level, with operating profit to increase 4.4% to ¥46.5bn, ordinary profit to grow 4.2% to ¥50bn, and profit attributable to owners of parent to increase ¥4.8% to ¥31bn, thereby achieving the targets of the medium-term management plan. As in the first half, total revenues are forecast to decline because of a change in accounting standard; however, in actuality, the trend of expansion will continue. It is anticipated that the continuing accumulation of operating assets in each strategic field and the growth of non-asset earnings will contribute to the increases in profits. The Company also plans to increase the dividend by ¥20 YoY for a dividend per share of ¥260.

Key Points

- Earnings continued an increasing trend for H1 FY3/22, for record high profits.
- ROA also improved sharply, reflecting continued growth in strategic fields and adjustment of the portfolio with incorporation of highly profitable assets
- The Company achieved major results in developments for the future, such as business domain expansion in real estate, new initiatives in energy/environment, and function enhancement in BPO services
- For FY3/22, the initial forecasts remain unchanged. The Company expects increased profits at every level (also achieving the medium-term management plan), and plans to significantly increase dividends.

Trends in total revenues and ordinary profit



Note: The decrease in total revenues is mainly due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), etc. Although total revenues will decline due to this accounting reason, profits will not be affected.
Source: Prepared by FISCO from the Company's financial results

Company profile

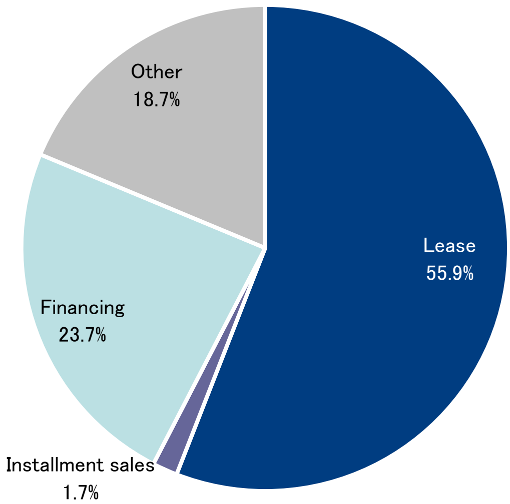
Comprehensive leasing company with strengths in real estate, energy/environment, and other areas. Also working to strengthen new domains, such as BPO services and the mobility business

1. Business overview

The Company has three business segments - lease and installment sales, financing, and other – but discloses "lease" and "installment sales" separately. Mainstay lease business accounts for 67.8% of operating assets, and 55.9% of profit before interest expenses* (as of H1 FY3/22). BPO services are currently included in other. The Company is focusing on BPO services as a new domain.

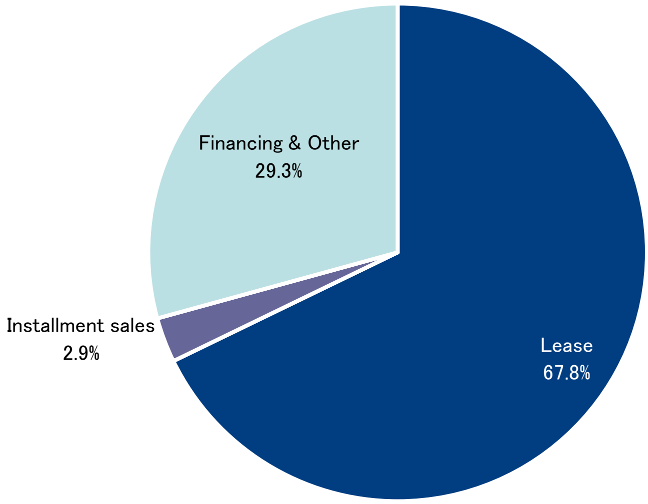
* Profit excluding the acquisition cost of leased equipment from total revenues

Composition of profit before interest expenses by segment (H1 FY3/22)



Source: Prepared by FISCO from the Company's results briefing materials

Ratio of operating assets by segment (H1 FY3/22)



Source: Prepared by FISCO from the Company's financial results

Below, we review the Company's business segments.

(1) Lease and installment sales

This segment handles leases of information and communications equipment, office equipment, industrial machine tools, and other equipment and installment sales of commercial facilities, production facilities, hospital facilities, and other facilities. In the lease business, the leasing company purchases and leases machinery, equipment, or other facilities selected by customers for a certain leasing fee over a relatively long period. In other words, leases constitute a funding method (financial transaction) that focuses on facility deployment. Benefits to customers, versus outright purchase (and ownership) of facilities, include efficient utilization of capital, reduction of administrative burden, avoidance of risk from outdated facilities, and cost control. Leasing companies, meanwhile, face less collection risk than ordinary loan transactions, because they possess ownership rights to the leased equipment. The Company conducts installment sales for equipment that does not qualify as leasing for tax purposes and cases in which the customer wants direct ownership.

Looking at the volume of newly executed lease contract volume by type of equipment, substantial growth has been experienced in buildings, etc. (real estate leases) and transportation equipment in the past few years. Key drivers in real estate leases are commercial properties (such as large shopping centers), an area of expertise, as well as diversification of properties including hotels, nursing care and residential, leisure, services, and logistics, following the expansion in alliance partners. The Company leverages its experience of over 30 years and an extensive network in this business given the need for expertise and knowhow with tough legal hurdles and complex rights relationships. Also, the growth of transportation equipment up until recently was due to aircraft leases, and at the current time they are being impacted by the COVID-19 pandemic. However, the Company's strengths include its track record and expertise accumulated over many years. In addition, it is aiming to strengthen the mobility business, which is expected to grow in the future, through making YAMATO LEASE CO., LTD.* a consolidated subsidiary (in April 2020).

* Started making a consolidated subsidiary of YAMATO LEASE, which was a subsidiary of YAMATO HOLDINGS CO., LTD <9064> in April 2020. The Company's shareholding ratio became 60% and YAMATO HOLDINGS' became 40%.

(2) Financing

This segment covers capital investment funding and other business loans, real estate financing, and securities-related management tasks. Its operating assets include corporate operating loans (such as syndicate loans) and retail funding through consolidated subsidiary Sharp Finance Corporation (SFC). The Company added a factoring business* by making Accretive Co., Ltd. a consolidated subsidiary (in January 2017).

* This business mainly handles FPS (early payments service for accounts receivable) for small- and medium-sized companies, and FPS Medical (early payment service for medical and care fee credits) for medical institutions.

(3) Other

This segment includes large-scale solar power operations (renewable energy business) handled directly by the Company, silent partnership originations for aircraft leases and other businesses, and the life insurance agency business. Also, the Company has built a structure to respond to various BPO needs with the addition of an integrated billing service*1 provided by INVOICE INC., which was made into a consolidated subsidiary in October 2018, and wide-ranging back-office services (including accounting, human resources and salary, general affairs and sales administration) provided by NOC Outsourcing & Consulting Inc. (hereinafter, NOC) which was made into a consolidated subsidiary in August 2019. In October 2021, the Company expanded its service functions even further with the consolidation of WorkVision Corporation (formerly Toshiba Solutions Sales Corporation),*2 which provides IT solutions centered on cloud packages (DX support, etc.).

*1 A service that handles making burdensome monthly payments to telecom carriers and other utilities on behalf of customers.
*2 Financial results for the most recent fiscal year (FY3/21) were total revenues of ¥12.4bn, ordinary profit of ¥0.47bn, and net profit of ¥0.31bn.

2. History

The Company was established in 1969 with six companies from the Fuyo Group as shareholders led by Fuji Bank (now Mizuho Financial Group) and Marubeni-Iida Co., Ltd. (now, Marubeni).

It steadily broadened business scope thereafter and created a local entity in the US in 1988. It established a local entity in Ireland (Dublin), a major center for aircraft leases, in 1999. The Company was relatively early in its entry to aircraft business, which has recently attracted attention from many companies, and accumulated a track record and know-how with leveraged leases (aircraft leases with investor subscriptions) and other formats.

The Company has also teamed up with other companies to establish joint ventures, such as Yokogawa Rental & Lease Corporation (holds a large share in measuring instruments) with Yokogawa Electric Corporation <6841> in 1987 and Nihon Credit Lease Co., Ltd. (holds a large share in medical equipment and welfare equipment) with NICHIIGAKKAN CO., LTD. in 1999.

Major turning points were listing shares on the First Section of the Tokyo Stock Exchange in December 2004 and acquisition of SFC as a consolidated subsidiary (buying a 65% stake) in April 2008. SFC controls a strong share in the retail (vendor lease) area and contributed substantially to broadening business scope and increasing scale.

In July 2014, the Company acquired ALM 2010 Limited (it changed the name to Fuyo Aviation Capital Europe Limited; hereinafter ALM), a UK-based aircraft-related services company, as a consolidated subsidiary (buying all shares) and thereby strengthened its ability to expand aircraft business.

In January 2017, it acquired Accretive, a subsidiary of Don Quijote Holdings Co., Ltd. (Pan Pacific International Holdings Corporation <7532>) that operates a factoring business (purchase of accounts receivable) mainly for small- and medium-sized companies, as a consolidated subsidiary. In addition to pursuing synergies through cross-selling with each company in the Group, the Company is also progressing other measures, including strengthening measures for the new domains. In October 2018, the Company made INVOICE, an integrated billing service provider, a consolidated subsidiary and then in August 2019, it made NOC, a back-office service provider with a wide range of operations, a consolidated subsidiary in an effort to strengthen the BPO services business. In April 2020, it made a consolidated subsidiary of YAMATO LEASE, a subsidiary of YAMATO HOLDINGS, establishing footholds toward the development of the mobility business, which is considered to have growth potential, and for the logistics industry.

Financial results

Profit before interest expenses, which shows true business performance, is trending upward, including through the accumulation of operating assets and the growth of non-asset earnings

1. Key points for assessing results

The Company's total revenues consist of lease fee revenue (over 80% of overall sales), revenue from installment sales, interest income on financing, and non-asset earnings (such as fee income). Since total revenues (excluding non-asset earnings) fundamentally fluctuate with operating assets, the Company needs to increase newly executed contract volume and accumulate more operating assets in order to expand total revenues. However, it should be noted that accounting of mainstay lease fee revenue reflects the purchase transaction and includes the price of the leased item. Consequently, profit before interest expenses excluding the acquisition cost of leased equipment from total revenues is the suitable indicator for assessing actual income growth as a financing business.

Meanwhile, to ascertain the profitability of the Company's main business, the most rational approach is thought to be monitoring trends in ordinary profit, in which expenses such as interest expenses (fund-raising costs), personnel and equipment expenses, and costs related to bad debts (including reversals)*, are deducted from profit before interest expenses. Ordinary profit is obtained by multiplying operating assets by ROA (ratio of ordinary profit to operating assets), so it is affected by movements in both. Also, most recently, the Company has been working to grow non-asset earnings, so it is also necessary to pay attention to the other segment.

* This is the net value of provision of allowance for doubtful accounts (SG&A expenses) and reversal of allowance for doubtful accounts (non-operating income).

2. Past results trends

Looking back on past results trends, total revenues have trended upward alongside the accumulation of operating assets. Ordinary profit has also continued to increase from both the accumulation of operating assets and the improvement of ROA. The improvement of ROA has been particularly due to the growth of real estate leases and aircraft leases, which have comparatively high yields, while most recently, the growth of new-domain businesses (non-asset earnings), mainly BPO services, has also been contributing.

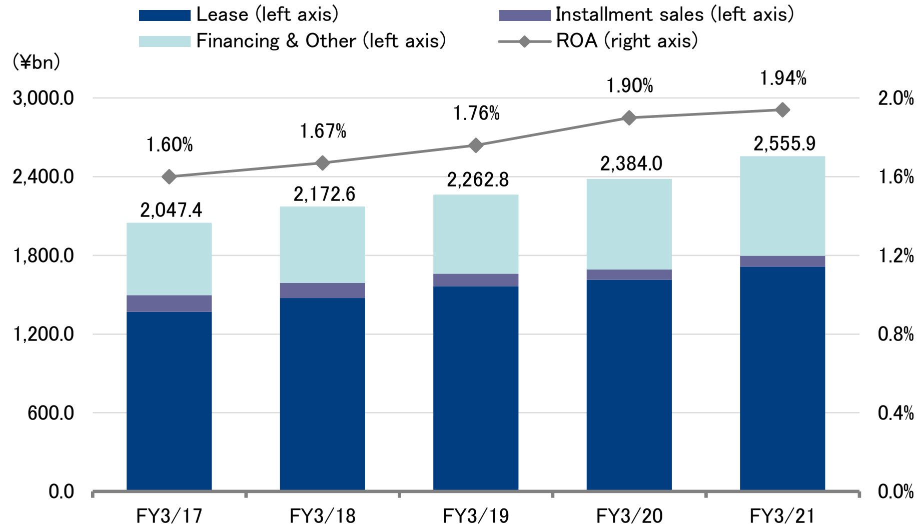
From a cost perspective, meanwhile, funding costs have been largely flat. This trend, despite growth in total funding value, is driven by a decline in interest on funding due to the impact of market rates. Additionally, the Company keeps personnel and equipment expenses at a certain level and has low bad debts-related costs. Low-cost operations, a strength, are paying off. As a result, ordinary profit for FY3/21 reached all-time highs for four straight fiscal years.

Interest-bearing debt has been growing due to the accumulation of operating assets, but the equity ratio remains steady at about 10%. The 10% range does not pale in comparison to other companies in the leasing industry, which possesses large amounts of highly liquid operating assets, and should not spark concerns about stability of the Company's financial base.

In addition, ROE (Return on Equity), which shows capital efficiency, has been increasing since FY3/16 alongside the rise in the profit level, and it had exceeded 10% by FY3/21.

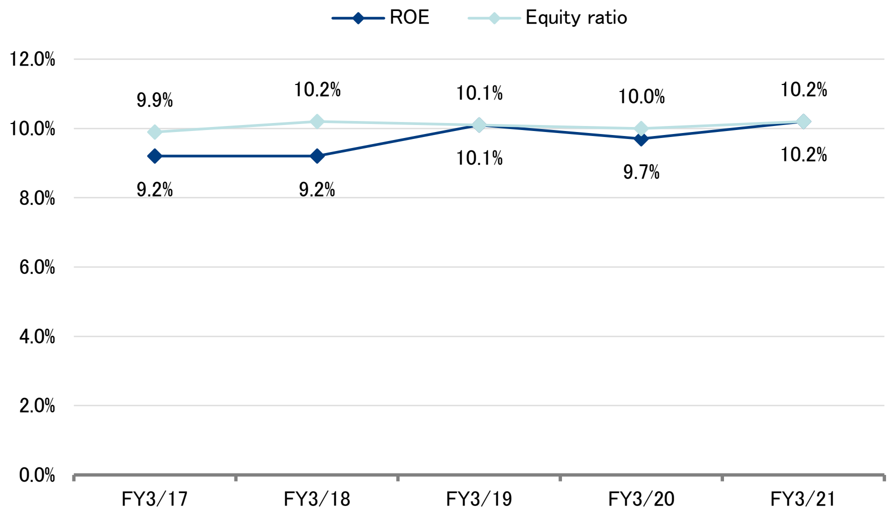
Operating cash flow remains negative. It is reasonable to interpret this as a reflection of the Company's growth potential, because the main cause is aggressive accumulation of operating assets, which are future income sources.

Trend in operating assets and ROA



Note: ROA is calculated as ordinary profit ÷ operating assets (average balance)
Source: Prepared by FISCO from the Company's results briefing materials

Trend in equity ratio and ROE



Note: FY3/19 and FY3/20 reflect the values determined through accounting treatment for business combination in FY3/20.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Earnings continued an increasing trend for H1 FY3/22, for record high profits at every level. The results reflect growth in strategic fields and portfolio adjustments incorporating highly profitable assets

3. Summary of H1 FY3/22 results

In the H1 FY3/22 results, profits reached new record highs on every level (on a H1 basis) despite a decrease in total revenues due to a change in accounting standard, with total revenues decreasing 20.1% YoY to ¥285.4bn, operating profit growing 12.3% to ¥23.5bn, ordinary profit climbing 20.7% to ¥27.4bn, and profit attributable to owners of parent increasing 30.3% to ¥18bn. Steady progress was made toward achieving the full fiscal year targets.

Total revenues decreased due to a change in accounting standards;*1 however, under the previous standard they remained at around the same level YoY. Meanwhile, profit before interest expenses, which shows true business performance, grew steadily, increasing 4.8% YoY to ¥48.1bn. In particular, in strategic fields, despite a continued adverse business environment for aircraft and so forth due to the COVID-19 pandemic, this was covered by continued favorable performance in real estate and growth in energy/environment while the finance business also made a significant contribution to increased profits as earnings grew due to appropriate adjustment of the portfolio and equity investments.*2 In addition, expenses were curbed by factors including a decrease in personnel and equipment expenses in the absence of a one-time cost*3 recorded in the same period of the previous fiscal year, a decrease in interest expenses, and improvement in profits and losses related to bad debts*4, while growth in non-operating income associated with an increase in earnings from equity-method investments*5 also contributed, resulting in a significant increase in ordinary income.

*1 The changes in accounting standards refer to the application of Accounting Standard for Revenue Recognition, etc. Profits and losses will not be affected.
*2 Earnings from equity investments refer to income from equity investments primarily in the real estate finance and renewable energy business.
*3 Head office relocation expenses (¥0.6bn) were recorded in the same period of the previous fiscal year.
*4 Profits and losses related to bad debts amounted to a gain of ¥0.1bn mainly due to the recording of recoveries of receivables of ¥1.4bn (a loss of ¥0.7bn was recorded in the same period of the previous fiscal year).
*5 Notably, there was a strong performance by a subsidiary in Canada (leasing of pickup trucks) and by Yokogawa Rental & Lease Corporation (rental of PC and measuring instruments), which is a joint venture with Yokogawa Electric Corporation.

The newly executed contract volume declined slightly by 2.8% YoY to ¥643.9bn. Despite this small decline, we hold the view that the Company kept the newly executed contract volume mostly unchanged at a certain level while remaining aware of profitability. The newly executed volume for leases as a whole increased YoY, owing particularly to growth in strategic fields. Moreover, regarding operating assets, finance leases decreased due to asset control through liquidation, but this decrease was covered by an accumulation of operating leases centered on real estate and aircraft. Consequently, operating assets were kept at ¥2,558.2bn, which was almost the same level as the previous fiscal year-end.

As a result, ROA (annualized)* improved sharply to 2.15% (1.94% in the same period of the previous fiscal year). Portfolio adjustments incorporating highly profitable assets proved beneficial, and ROA surpassed the target laid out in the medium-term management plan (2.0%).

* Ordinary profit (annualized) ÷ operating assets (average balance)

In the financial condition, total assets were mostly unchanged at ¥2,949.6bn, down 1.0% from the end of the previous fiscal year. Meanwhile, core capital rose 6.6% to ¥324.7bn due to the accumulation of retained earnings. For these reasons, the equity ratio improved to 11.0% (10.2% at the end of the previous fiscal year). Also, interest-bearing debt (excluding lease obligations) decreased slightly by 1.8% from the end of the previous fiscal year. Against the backdrop of favorable fund procurement conditions, the Company actively issued corporate bonds*1. Accordingly, the direct procurement rate was 31.1% (32.6% at the end of the previous fiscal year), the long-term debt ratio of interest-bearing debt*2 was 57.5% (56.2% at the end of the previous fiscal year) and the liquidity ratio, which indicates short-term payment capabilities, was 136.7% (137.1% at the end of the previous fiscal year), so these were stable and the Company maintained its financial soundness.

*1 Bond issuances included the issuance of Sustainability Bonds (Fuyo CSV Bonds) as part of ESG finance initiatives.
*2 The long-term debt ratio of interest-bearing debt represents the ratio of long-term interest-bearing debt (corporate bonds + long-term borrowings + long-term payables under securitization of lease receivables) to interest bearing debt (excluding lease obligations).

Summary of H1 FY3/22 results

(¥bn)

	H1 FY3/21		H1 FY3/22		YoY change	
	Results	% of revenues	Results	% of revenues	Amount	% change
Total revenues	357.4		285.4		-72.0	-20.1%
Lease	237.7	66.5%	238.8	83.7%	1.1	0.5%
Installment sales	22.3	6.2%	16.8	5.9%	-5.5	-24.6%
Financing	9.9	2.8%	11.6	4.1%	1.7	16.9%
Other	87.5	24.5%	18.2	6.4%	-69.3	-79.2%
Profit before interest expenses	45.9	12.8%	48.1	16.9%	2.2	4.8%
Lease	26.4	11.1%	26.9	11.3%	0.5	2.1%
Installment sales	0.9	4.0%	0.8	4.8%	-0.1	-18.5%
Financing	9.7	98.0%	11.4	98.3%	1.7	17.5%
Other	8.9	10.2%	9.0	49.5%	0.1	1.4%
Interest expenses	5.0	1.4%	4.7	1.6%	-0.4	-7.1%
Gross profit	40.9	11.4%	43.5	15.2%	2.6	6.3%
SG&A expenses	19.9	5.6%	19.9	7.0%	-0.0	-0.0%
Operating profit	20.9	5.8%	23.5	8.2%	2.6	12.3%
Ordinary profit	22.8	6.4%	27.4	9.6%	4.7	20.7%
Profit attributable to owners of parent	13.9	3.9%	18.0	6.3%	4.2	30.3%
Newly executed contract volume	662.4		643.9		-18.5	-2.8%
General lease	154.8	23.4%	139.0	21.6%	-15.8	-10.2%
Real estate lease	62.5	9.4%	88.1	13.7%	25.6	41.0%
Installment sales	17.1	2.6%	11.3	1.8%	-5.8	-33.9%
Financing & Other	211.1	31.9%	153.3	23.8%	-57.8	-27.4%
Accretive	217.0	32.8%	252.1	39.2%	35.1	16.2%
[Newly executed lease contract volume by type of equipment]						
IT & office equipment	86.9		66.2		-20.7	-23.8%
Industrial machinery	13.6		9.2		-4.4	-32.4%
Civil engineering and construction machinery	4.2		1.6		-2.6	-61.9%
Transportation equipment	18.0		35.6		17.6	97.8%
Medical devices	9.8		8.4		-1.4	-14.3%
Commercial/services equipment	11.9		8.6		-3.3	-27.7%
Buildings, etc.	62.5		88.1		25.6	41.0%
Other	10.3		9.5		-0.8	-7.8%
Total	217.3		227.2		9.9	4.6%

	As of March 31, 2021 Results	As of September 30, 2021 Results	YoY change	
			Amount	% change
Operating assets	2,555.9	2,558.2	2.3	0.1%
Financing & Lease	1,080.8	1,028.3	-52.5	-4.9%
Operating & Lease	632.5	706.3	73.8	11.7%
Installment sales	83.5	74.7	-8.8	-10.6%
Financing & Other	759.0	748.9	-10.1	-1.3%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Below we review results and activities in the Company's strategic business areas.

(1) Real estate

At the end of September 2021, operating assets had grown steadily, increasing 11.2% on the end of the previous fiscal year to ¥617.5bn. The revised target for the amount of increase in the medium-term management plan (¥530bn) was achieved one year ahead of schedule, and the Company was able to further increase operating assets above the target. Diversification of deal sources such as users and alliance partners in the real estate business contributed to the accumulation of operating assets. It also appears that the Company steadily captured leaseback projects as a means of providing strategic financial solutions to operating companies. Looking at the breakdown by property use, projects are diversified into uses such as commercial facilities, hotels, nursing facilities, residences, leisure and services, logistics, and other uses. The ratio of bridge projects* has also been increasing. Meanwhile, ROA has been trending at the high level of 2.4% (2.3% in the previous year), mainly as asset efficiency was enhanced through the liquidation of existing assets. The Company can be commended for its steady growth in business domains for the future, driven by initiatives including the execution of a real estate lease (for a major Japanese beverage enterprise) in Taiwan in collaboration with DAIWA HOUSE INDUSTRY CO., LTD. <1925> and participation in development projects in collaboration with alliance partners.

* In the process of addressing problems with land and buildings owned by clients, the company temporarily takes custody of these properties and solves various problems.

(2) Aircraft

At the end of September 2021, operating assets rose 14.0% on the end of the previous fiscal year to ¥169.2bn, marking an increase from the downturn recorded in the previous fiscal year in connection with the COVID-19 pandemic. Amid an industry environment that remains challenging, the Company pushed ahead with a steady accumulation of carefully selected, high-quality projects (by airline and aircraft type). With the number of Company-owned aircraft (contract basis) at 45 (up 1 aircraft YoY), the Company has maintained a sound aircraft portfolio centered on new aircraft and narrow-body aircraft. That said, the Company has not yet normalized the collection of lease payments from airlines based in Southeast Asia, and it recorded a provision for future lease payments. Consequently, ROA fell to -0.7% (0.2% in the previous fiscal year)*.

* However, ROA does not include items such as JOLCO fee income and recoveries of receivables. When those items are included, the aircraft business as a whole appears to have generated positive ordinary income.

(3) Overseas

At the end of September 2021, operating assets (including the amount invested in affiliates in the overseas business) had increased by 1.6% on the end of the previous fiscal year to ¥99bn. The Company is taking steps to accelerate business expansion primarily in strategic fields, which are the Group's strengths, such as energy/environment and real estate. It seems that approaches tailored to market characteristics and collaborations with alliance partners have been successful, including the abovementioned execution of a real estate lease in Taiwan, which was a first for the Company, and the establishment of a Power Purchase Agreement (PPA) operating company in Thailand through a joint venture with the Sharp Group. ROA improved substantially to 2.2% (1.6% in the previous fiscal year), reflecting progress on collaborations in high-value-added strategic fields.

(4) Energy/environment

At the end of September 2021, operating assets (the Fuyo General Lease Group's renewable energy power generation business) had decreased by 3.6% from the end of the previous fiscal year to ¥31.8bn, and the equity investment portion had decreased by 3.5% to ¥11bn, marking small decreases mainly due to depreciation. However, the total power output steadily grew by 2.8% from the end of the previous fiscal year to 291MW (the total of the Group's business and the equity investment portion) exceeding the numerical target in the medium-term management plan (200MW), while ROA reached 6.3% (6.0% in the previous fiscal year), exceeding the numerical target in the medium-term management plan (6.0%). Notably, the shift from "financing" to "business" is underway through joint investments with alliance partners. In addition, in anticipation of the next medium-term management plan, the Company has stepped up overseas development centered on solar and wind power, and the amount of project information seems to be increasing as a trend through growth and collaboration with alliance partners. Moreover, eyeing the post-FIT era, the Company is also focusing on PPA-related business, as well as new initiatives such as measures that anticipate the domestic market for power demand and supply adjustments* and expansion of the EV infrastructure business.

* The domestic market for power demand and supply adjustments was launched in April 2021. It is a framework designed to facilitate the trading of electric power needed to adjust the supply and demand of electricity at power plants and other facilities (adjustment capacity) in a nationwide integrated market.

(5) Medical/social welfare

At the end of September 2021, operating assets (including overlaps with other business fields) had steadily grown, increasing 3.1% on the end of the previous fiscal year to ¥119bn (of which, ¥23bn, an increase of 13.3%, was Accretive's medical and care fee credits factoring business). As part of the Fuyo Lease Platform Concept that the Company is promoting, the Company is working to launch a Group-wide website that can provide all the Group's products and services in the medical/social welfare field on a one-stop basis. The website is scheduled to be launched within the current fiscal year. The website is positioned as an interface for providing services that will support the resolution of issues faced by medical institutions and nursing care providers. The Company will also utilize the website to facilitate mutual customer referrals with alliance partners.

(6) BPO services business (new domain)

At the core subsidiaries that are responsible for the BPO services business, ordinary profit trended steadily to ¥1.8bn at INVOICE, to ¥0.7bn at Accretive, and to ¥0.3bn at NOC. It is likely that advances in work style reforms and growing adoption of telecommuting, which have accelerated during the COVID-19 pandemic, have served as tailwinds. Moreover, in April 2021 the Company started a service to support the complete shift of accounting departments to telecommuting* in collaboration with NTT Communications Corporation. Additionally, in October 2021 the Company made a consolidated subsidiary of WorkVision, which provides IT solutions centered on cloud packages. Through these efforts, the Company worked to enhance its menu of BPO services and raise its sophistication through digitization, in addition to strengthening ICT solution capabilities.

* This service is a complete solution for accounting and invoicing that combines digitized BPO and accounting BPO services.

(7) Mobility business (new domain)

At the end of September 2021, operating assets had decreased by 6.2% from the end of the previous fiscal year to ¥168.6bn, marking a temporary decline. However, the Company is pushing ahead with post-merger integration (PMI) of YAMATO LEASE, which became a consolidated subsidiary in April 2020, with the aim of driving business expansion by creating synergies from medium- and long-term perspectives. Additionally, in terms of forward-looking initiatives, the Company entered into a business alliance with MACNICA, Inc. for the social implementation of autonomous driving*1, and plans to strengthen its hand in the EV domain*2.

*1 The Company and MACNICA, Inc. plan to jointly build and supply an automated driving demonstration experiment support services program. The two companies intend to make the program available to local governments and companies for use in their demonstration experiment.

*2 Working closely with alliance partners, the Company plans to roll out a service that will provide not only finance functions, but also solutions ranging from consulting on deploying EVs and charging stations to energy management on a one-stop basis.

4. Summary of H1 FY3/22

To summarize H1 FY3/22 from the above, on the business performance front, the Company achieved record-high earnings through such means as growth in strategic fields and portfolio adjustments incorporating highly profitable assets, and the target for ordinary profit in the medium-term management plan is now well within reach. For these reasons, these results are very good. Another notable point is that we now have a clearer picture of the Company's developments for the future, such as business domain expansion (overseas development and participation in development projects) in real estate, which will likely remain the Company's main growth driver, along with new initiatives in energy/environment (PPA-related business and overseas development), and function enhancement in BPO services (such as DX support).

Business outlook

For FY3/22, the Company has kept initial forecasts unchanged, and expects profits to increase at every level. The Company is expected to achieve the medium-term management plan

1. FY3/22 results outlook

For the results in FY3/22, which is the final fiscal year of the medium-term management plan, the Company has kept its initial forecasts unchanged, with total revenues forecast to decrease 17.6% YoY to ¥610bn, while profits are expected to increase at every level, with operating profit to increase 4.4% to ¥46.5bn, ordinary profit to rise 4.2% to ¥50bn, and profit attributable to owners of parent to grow 4.8% to ¥31bn. If these forecasts are met, the Company will have achieved its medium-term management plan (ordinary profit target). Meanwhile, as in the first half, total revenues are forecast to decline because of a change in accounting standard; however, in actuality (i.e., in comparison with the same basis as the previous fiscal year), the trend of expansion is forecast to continue.

It is anticipated that the continuing accumulating of operating assets in each strategic field and the growth of non-asset earnings will contribute to the increases in profits. Operating assets have already achieved their numerical target in the medium-term management plan (¥2,500bn) one year ahead of schedule, so the Company is aiming to further accumulate assets, including through the growth of real estate and energy/environment, which continue to perform strongly.

On the profit front, the Company aims to achieve ordinary profit of ¥50bn by further improving ROA through the accumulation of operating assets and asset control.

FY3/22 outlook

(¥bn)

	FY3/21		FY3/22		YoY change	
	Results	% of revenues	Forecasts	% of revenues	Amount	% change
Total revenues	740.2		610.0		-130.2	-17.6%
Operating profit	44.5	6.0%	46.5	7.6%	2.0	4.4%
Ordinary profit	47.9	6.5%	50.0	8.2%	2.1	4.2%
Profit attributable to owners of parent	29.5	4.0%	31.0	5.1%	1.5	4.8%

Source: Prepared by FISCO from the Company's financial results

2. Primary focus of FISCO's analysis

FISCO believes that the impact of the worldwide spread of COVID-19 (particularly the Omicron strain) needs to continue to be watched closely regarding the impact on the aircraft business and other areas. Meanwhile, excluding this factor, and judging by how well the Company has accumulated operating assets and made portfolio adjustments incorporating highly profitable assets in the first half, we believe that the Company is fully capable of achieving its results forecasts. Instead of these forecasts, FISCO believes focus should be on how the Company will lay out new strategic directions ahead of the next medium-term management plan. From such a perspective, it would be desirable to follow the Company's activities in strategic fields, particularly real estate, energy/environment, and BPO services. Notably, we believe that the key to the Company's success lies in how it will implement initiatives to solve social issues and harness those initiatives to drive its own sustainable growth.

Growth strategy

The Company is aiming to accumulate operating assets and improve ROA through the expansion of highly profitable businesses and challenging the frontier (New Domains)

1. Medium-term management plan

The Company is promoting its medium-term management plan Frontier Expansion 2021, which covers FY3/18 through to FY3/22, the final fiscal year. With a slogan of "Go where no one has gone before," it aims to become a corporate group with sustainable growth, despite major changes in the environment for domestic leasing business, through expansion of the business portfolio's "frontier" by pursuing new business areas and business models. The plan is a five-year long-term outlook for expansion of the frontier (new domain).

Its business goals are ¥2,500bn in operating assets, 2.0% ROA (ratio of ordinary profit to operating assets), and ¥50bn in ordinary profit, which are unchanged from the initial forecasts. Average annual growth rates for the five years are 4.1% in operating assets and 9.8% in ordinary profit. The scenario for ordinary profit in particular, sees the Company reaching this level through the combined impact of expanded operating assets and improved ROA.

Numerical targets of the medium-term management plan

(¥bn)

	FY3/17 Results	FY3/18 Results	FY3/19 Results	FY3/20 Results	FY3/21 Results	FY3/22 Target
Operating assets	2,047.4	2,172.6	2,262.8	2,384.0	2,555.9	2,500.0
ROA	1.60%	1.67%	1.76%	1.90%	1.94%	2.00%
Ordinary profit	31.4	35.2	39.1	44.0	48.0	50.0

Source: Prepared by FISCO from the Company's results briefing materials

Core strategies include 1) selection and concentration in strategic fields, 2) challenge the frontier, and 3) pursue Group synergies.

(1) Selection and concentration in strategic fields

The Company intends to concentrate business resources in the following strategic fields, which will serve as growth drivers: 1) real estate, 2) aircraft, 3) overseas, 4) energy/environment, 5) medical and social welfare, and 6) new domains. It also positions the following areas as core areas where it aims to maintain and expand the market (customer base) via group collaboration and other improvements in efficiency: 7) vendor leases, 8) domestic corporate, and 9) finance. It has changed the position of auto leasing, which was previously one of the core fields, to be the mobility business, as one of the new frontiers (new domain) in which growth is expected.

(2) Challenge the frontier

The Company plans to shift emphasis to added value, services, and business areas that banks cannot offer in order to clarify differentiation with rivals (bank-affiliated leasing companies and banks themselves). In particular, it aims to expand into areas that place value (business value) on goods. In new domain expansion, it is mainly considering utilization of M&A and capital and business alliances and seeking non-asset businesses that contribute to higher asset efficiency (ROA), such as through BPO services.

(3) Pursue Group synergies

The Company aims to maximize Group synergies by rolling out products (services) from Group companies to the markets (customer bases) of other Group companies. It plans to dramatically enhance sales performance by effectively connecting the "functions" and "customer bases" of each Group company, including the Company's main operations with strength in large corporate transactions, SFC's retail-oriented business, Accretive's factoring platform that links large companies and small- and medium-sized companies, INVOICE's integrated billing service with a customer base of 16,000 companies, NOC's strength in wide-ranging back-office services and business consulting, and YAMATO LEASE's solid network in the logistics industry.

2. Progress made up to the present time

In FY3/21 operating assets reached ¥2,555.9bn, achieving its target one year ahead of schedule. Judging from its results for H1 FY3/22, the Company is also making steady progress toward its targets for ordinary profit and ROA.

3. Progress and direction in strategic fields

(1) Real estate

For the plan's final fiscal year, the Company's policy is to maintain operating assets at ¥530bn and ROA at a level of 2.2%. It has already exceeded the final fiscal year's target for operating assets, but it will continue to expand alliance partners and also progress Company-led projects that utilize its abundance of real estate information. In addition, the Company is working to expand business domains through overseas development in collaboration with alliance partners, participation in development projects and other initiatives.

(2) Aircraft

The Company is currently adopting a cautious approach in this business based on the impact of the COVID-19 pandemic. However, after considering the market's recovery conditions and other factors, the Company plans to work on high-quality projects (by airline and aircraft type) toward re-growth and to increase the number of Company-owned aircraft. Moreover, the Company plans to expand business areas to peripheral businesses, including a parts-out business and investment in airline-related ventures, and to transition to asset turnover-oriented businesses that are not unduly affected by market cycles (such as aircraft sale and leaseback transactions), with the aim of recording steady revenues. The Company also intends to actively make use of the expansive network of ALM, its subsidiary in the U.K.

(3) Overseas

The targets for the plan's final fiscal year are operating assets of ¥110bn and ROA of 1.6%. Up to the present time, the Company has expanded this business mainly through an inorganic growth strategy (investments, acquisitions, partnerships, etc.), but going forward, its policy is also to grow earnings organically. Centered on the fields in which the Company is strong (real estate, energy/environment, mobility business, etc.), it is progressing overseas projects in collaboration with customers. In particular, it is working to further expand its overseas network through increasing bases in Asia and other measures.

(4) Energy/environment

In the mainstay solar power generation business, for the plan's final fiscal year the Company is targeting a total power output of 202MW and to increase operating assets to ¥34bn, and also to maintain ROA at the high level of 6.0%. It has already achieved the final targets for the total power output and operating assets, while going forward, it will strengthen overseas business development toward the post-FIT period (a renewable energy power generation business overseas and joint investments with alliance partners), and also develop the business including providing Power Purchase Agreement (PPA) services, developing the operations of the plant factory it is newly participating in, and also contributing to building a sustainable society.

(5) Medical/social welfare

For operating assets* in the plan's final fiscal year, the Company is targeting ¥125bn. The Company will continue working to realize the Fuyo Lease Platform Concept. Under this concept, the Company will provide various services on a one-stop basis by expanding business domains through collaboration with highly specialized players and by further enhancing advisory functions. Moreover, within operating assets, the forecast is for the balance of Accretive's medical and care fee credits factoring business (FPS Medical) to be ¥30bn, and the policy is to further deepen collaboration with partners such as regional financial institutions and medical consultants.

* There are some overlaps with other business fields. It includes Accretive's medical and care fee credits factoring business.

(6) New domain (BPO services business)

New domain is the Company's general term for "a business that will be a new initiative," such as a new business or the growth of a business domain. The Company is expanding the business frontier centered on the non-asset business. It will continue to collaborate in earnest with NOC, which provides a wide range of back-office services, and WorkVision (IT solutions centered on cloud packages), which recently became a consolidated subsidiary. It will also provide new services (expand service functions) through collaborations with non-Group companies, including measures to further strengthen (establish a position for) BPO services and DX support, for which needs are growing as society learns to live with COVID-19.

(7) New domain (mobility business)

From April 2020, the Company has added the mobility business to its business portfolio as a new strategic direction. It intends to grow this business to a level where it constitutes a key part of its business portfolio in the future. To this end, the Company will work to double profits from the current level (of around ¥3bn) by providing solutions to the vehicle and logistics industries, which have major potential.

4. Formulation and schedule for the next medium-term management plan

The Company is currently formulating a new medium-term management plan that will start anew in April 2022. With this plan, the Company will set a course for achieving both social and corporate value through business strategies based on CSV*1. It intends to drive sustainable growth by providing support to solve the issues facing society and companies. For example, the Company will combine climate change issues with energy/environment solutions and work style reforms with BPO services. In addition, the Company seems to be working to increase the precision of its business strategies in order to further promote the zone management*2 approach that it has advanced during the current medium-term management plan. The Company plans to announce the new medium-term management plan from late March to early April 2022.

*1 Creating Shared Value: The concept of CSV was first proposed by Professor Michael Porter in an article in the Harvard Business Review. The CSV approach calls on companies to achieve both social value and corporate value by solving social issues through their business activities.
*2 Zone management is a management approach introduced in “Zone to Win: Organizing to Compete in an Age of Disruption” (author: Geoffrey Moore). With this approach, companies are encouraged to divide their activities into 4 zones, and then establish unique goals and benchmarks for each zone, and set up support frameworks for improving performance in each zone, along with managing each of the four zones independently.

Responding to social issues

Aiming to realize a sustainable society and create business opportunities, the Company is actively addressing climate change issues and diversity

1. Efforts to address climate change issues

To address climate change issues, the Company is working on the following two priorities: 1) decarbonization of the Group and 2) providing services to customers and communities. With regard to priority 1), the Company became the first general leasing company in Japan to become a member of RE100*1 in 2018, along with announcing its endorsement of the Task Force on Climate-Related Financial Disclosures (TCFD)*2 in 2019, which was another first for a general leasing company in Japan. Moreover, in April 2021 the Company declared that it will effectively switch to renewable energy for the electric power consumed at its Group headquarters. In July 2021, the Company further declared that it would strive to achieve carbon neutrality*3 and RE100 by 2030.

*1 An international consortium of companies that aim to procure 100% of the energy used in their operations from renewable energy.
*2 The Task Force established by the Financial Stability Board. In June 2017, it issued a proposal that provides a framework for disclosing information on the risks and opportunities posed to finance by climate change.
*3 Carbon neutrality means reducing to zero the total amount of carbon dioxide (CO_2) emissions minus the absorption and removal of CO_2 emissions. The Japanese government has pledged to achieve carbon neutrality by 2050.

Meanwhile, regarding Priority 2), the Company started its renewable power generation business in 2012 and identified energy/environment as one of its strategic fields in the current medium-term management plan. The Company has been promoting growth in the solar power generation business and financing of infrastructure and facilities that aid energy efficiency and decarbonization, among other measures, in order to build a sustainable society. Moreover, in 2019 the Company joined the Renewable Energy 100 Declaration Establishment Council, along with starting to operate its own support program that utilizes green bonds. In December 2020, the Company became the first financial institution in Japan to issue Sustainability Linked Bonds*1. Furthermore, in September 2020, the Company started the Fuyo Zero Carbon City Support Program*2 as a new environmental finance program, in addition to expanding its operations to PPA-related business. Through these and other efforts, the Company has focused on investing in renewable energy technologies and providing business development support. Going forward, the Company will continue to contribute to the decarbonization of society as a whole through its business activities.

*1 A form of fund raising in which investors invest on evaluating the sustainability and ESG performance measures and targets (SPTs) of the issuers. The Company plans to set targets of 1) more than 50% of the Group's use of power consumption to be from renewable energy, and 2) a handling amount of at least ¥5bn for the Fuyo Renewable Energy 100 Declaration Support Program and the Fuyo Zero Carbon City Support Program (the deadlines for both are July 2024).
*2 Within the areas of local governments that have declared to be a "Zero Carbon City," it is providing preferential financing for installing renewable energy equipment and energy-saving equipment in offices and bases (in organizations such as companies, educational institutions, medical facilities, and local governments, etc.), and also conducting a donation program in which it donates jointly under the names of customers and the Company.

2. Efforts related to diversity

To address diversity, the Company is working on the following two priorities: 1) efforts to empower women in the workplace and 2) developing a better work environment. With regard to Priority 1), the Company is implementing measures including an expansion of corporate seminars at women's colleges, providing career development support to female employees, and hosting career lectures with female business leaders. It also holds informal meetings between female employees and the president, executives and division heads, and roundtable talks with senior female employees. Meanwhile, regarding Priority 2), the Company has introduced a +Friday (Plus Friday) program* and hourly based annual leave. It has also established rules for telecommuting and conducts an employee satisfaction survey. It offers e-learning to all employees to foster understanding of LGBTQ matters, and conducts seminars for department and branch managers, among other measures. As targets for its action plan based on the Women's Advancement Promotion Law (as of the end of March 2022), the Company aims for a percentage of new female employees hired (for employees joining the Company in April 2022) of 40%, a percentage of female employees in management positions of 30%, a rate of taking annual paid leave of 80% and a telecommuting utilization rate of 40%.

* The +Friday (Plus Friday) program allows employees to choose one Friday each month when they can work just a half day.

3. External evaluations

These efforts have been highly evaluated, and as a result the Company has been selected as a component of various ESG (Environment, Society, Governance) indexes*1. These include the FTSE4Good Index Series, which selects excellent companies in terms of their responses to ESG, the FTSE Blossom Japan Index, the MSCI Japan ESG Select Leaders Index, the S&P/JPX Carbon Efficient Index, and the Sompo Sustainable Index. In February 2020, it was awarded the Gold Award (Minister of the Environment's Award) in the Bond Category of the ESG FINANCE AWARDS JAPAN*2, which are organized by the Ministry of the Environment.

*1 Among these ESG indexes, the FTSE Blossom Japan Index, the MSCI Japan ESG Select Leaders Index, and the S&P/JPX Carbon Efficient Index have been adopted as the benchmarks of ESG passive management by GPIF (Government Pension Investment Fund), which is one of the world's largest pension funds.

*2 An awards system established by the Ministry of the Environment in FY2019 to evaluate and commend companies. Its aim is to share with society initiatives by investors, financial institutions, etc., that are having an excellent impact on the environment and on society by actively working on ESG finance and green projects, and company initiatives that are creating an impact on enterprise value and the environment through management strategies incorporating important environment-related opportunities and risks to improve enterprise value.

Shareholder returns

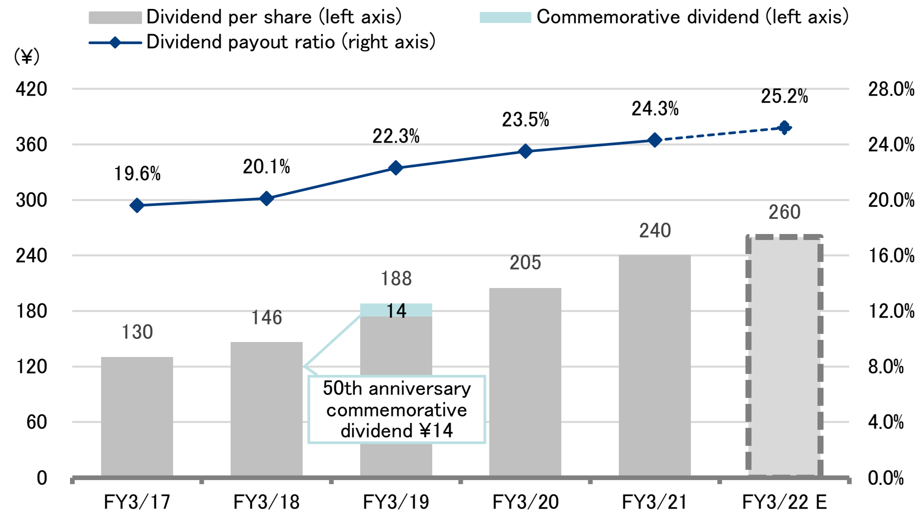
Steadily raising the dividend with support from strong performance and plans to increase it again in FY3/22 by ¥20 to ¥260 per share

The Company follows a fundamental policy of striving to return profits to shareholders by reinforcing shareholders' equity and continuing long-term, stable dividends to ensure a solid business foundation and robust financial position, taking into account its profits and business goals. Supported by strong profits, the Company has been continuously increasing its dividend since its shares were listed in 2004.

For the FY3/22 annual dividend, it plans to increase the dividend per share by ¥20 YoY to ¥260 (interim dividend ¥130, period-end dividend ¥130, dividend payout ratio 25.2%).

In addition to the higher dividend from profit growth, the Company has been gradually raising the dividend payout ratio, so at FISCO we think that there remains considerable room for the dividend to increase in the future due to both of these factors.

Dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

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